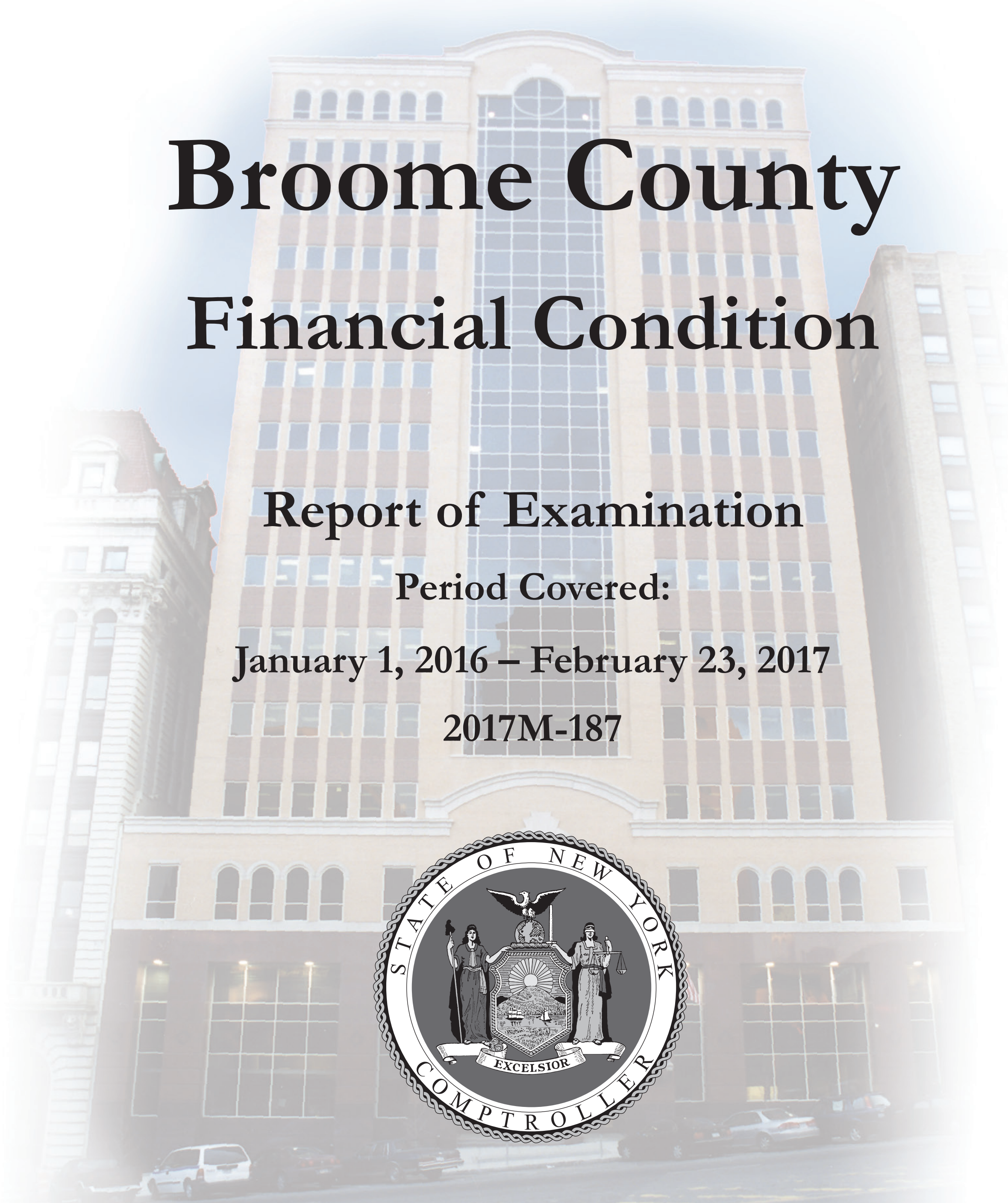
Office of the New York State Comptroller

Division of Local Government & School Accountability



Broome County

Financial Condition

Report of Examination

Period Covered:

January 1, 2016 – February 23, 2017

2017M-187

Thomas P. DiNapoli

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State of New York
Office of the State Comptroller

Division of Local Government
and School Accountability

February 2018

Dear County Officials:

A top priority of the Office of the State Comptroller is to help local government officials manage government resources efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support government operations. The Comptroller oversees the fiscal affairs of local governments statewide, as well as compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving operations and County governance. Audits also can identify strategies to reduce costs and to strengthen controls intended to safeguard local government assets.

Following is a report of our audit of Broome County, entitled Financial Condition. This audit was conducted pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the New York State General Municipal Law.

This audit's results and recommendations are resources for local government officials to use in effectively managing operations and in meeting the expectations of their constituents. If you have questions about this report, please feel free to contact the local regional office for your county, as listed at the end of this report.

Respectfully submitted,

Office of the State Comptroller
Division of Local Government
and School Accountability

State of New York
Office of the State Comptroller

EXECUTIVE SUMMARY

Broome County (County), located in the central southern portion of upstate New York commonly referred to as the Southern Tier, has a population of approximately 200,000 and encompasses 16 towns, one city and seven villages. The County is governed by the Board of Legislators (Board) comprising 15 elected members, one of whom serves as the Chair. The Board is the County's governing body and determines County policies. The County Executive is the chief executive officer and is responsible for the County's day-to-day operations and developing the County's annual budget. The Director of the Office of Management and Budget is the County's chief fiscal officer and is responsible for the administration of all County financial affairs.

The County provides various services, including general government support, road maintenance and snow removal, economic assistance, law enforcement and health and nursing services. The County's 2017 general fund budgeted expenditures account for approximately $247.9 million (65 percent) of the $383.1 million total budgeted expenditures, funded primarily by real property taxes, sales taxes, State and federal aid and user fees.

Scope and Objective

The objective of our audit was to examine the County's financial condition for the period January 1, 2016 through February 23, 2017. We expanded our scope back to December 31, 2009 to review the County's financial information and obtain a historical understanding of the County's financial condition. Our audit addressed the following related question:

- Did County officials maintain sufficient levels of fund balance in the general fund to ensure the sustainability of current and future operations?

Audit Results

County officials have not maintained sufficient levels of fund balance in the general fund. As a result, the County is at risk of depleting available fund balance at the end of 2017. County officials planned for operating deficits totaling $7 million during fiscal years 2014 through 2016, which they funded with available fund balance. On average, County officials annually used $2 million of available fund balance to fund operations during this time. As of December 31, 2016, the County's available fund balance was $3 million, of which $2.7 million was appropriated to fund the 2017 budget. Therefore, County officials would have to be 99.9 percent accurate with their 2017 budget estimates to avoid depleting remaining fund balance.

While the County does not have control over certain expenditures, it can take steps to reduce others. For example, County operations that should be self-sustaining are not and require consistent subsidies (direct transfers and intergovernmental transfers) from the County's general fund, including: the airport, two entertainment venues, the nursing home and the public transportation system. These subsidies averaged $7 million per year during fiscal years 2014 through 2016.

Further, the real property tax levy and the allocation of sales tax are the material revenue sources within County officials' direct control. Sales tax is the second highest revenue in the County (32 percent of total revenues). The County shares sales tax revenues with local municipalities. The Board adopted a 2017 general fund budget that accelerated the trend to increase the sales tax sharing rate, which has increased from 31.5 percent in 2012 to the budgeted 37.5 percent in 2017. The 2017 adopted budget also increased the real property tax levy slightly. Had the County not increased the sales tax sharing rate, it would have retained an additional $6.3 million in revenues from 2014 through 2016. These funding sources were replaced with the use of fund balance to finance operations, rather than offsetting the decreased net sales tax revenues with increases to the real property tax levy. Because fund balance has been depleted, this practice will not be sustainable for 2018.

From 2012 through 2016, the total expenditure growth has averaged 6.7 percent and revenues are not keeping pace at 5.6 percent. The County cannot continue to spend more than it takes in because fund balance is no longer available to cover any shortfalls. To avoid a deficit fund balance and an inability to pay bills and payrolls, County officials must develop a balanced 2018 budget and should also adopt a long-term financial plan to project finances going forward.

Comments of Local Officials

The results of our audit and recommendations have been discussed with County officials, and their comments, which appear in Appendix B, have been considered in preparing this report. The Chairman disagreed with certain findings in our report. Our comments on the Chairman's response are included in Appendix C of this report.

Introduction

Background

Broome County (County), located in the central southern portion of upstate New York commonly referred to as the Southern Tier, has a population of approximately 200,000 and encompasses 16 towns, one city and seven villages. The County is governed by the Board of Legislators (Board) comprising 15 elected members, one of whom serves as the Chair. The Board is the County's governing body and determines County policies. The County Executive is the chief executive officer and is responsible for the County's day-to-day operations and developing the County's annual budget. The Director of the Office of Management and Budget is the County's chief fiscal officer and is responsible for the administration of all County financial affairs.

The County provides various services, including general government support, road maintenance and snow removal, economic assistance, law enforcement and health and nursing services. The County's 2017 general fund budgeted expenditures account for approximately $247.9 million (65 percent) of the $383.1 million total budgeted expenditures, funded primarily by real property taxes, sales taxes, State and federal aid and user fees.

Objective

The objective of our audit was to examine the County's financial condition. Our audit addressed the following related question:

- Did County officials maintain sufficient levels of fund balance in the general fund to ensure the sustainability of current and future operations?

Scope and Methodology

We interviewed County officials and examined the County's financial records and reports for the period January 1, 2016 through February 23, 2017. We expanded our scope back to December 31, 2009 to review the County's financial information and obtain a historical understanding of the County's financial condition.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit are included in Appendix D of this report. Unless otherwise indicated in this report, samples for testing were selected based on professional judgment, as it was not the intent to project the results onto the entire population. Where applicable, information is presented concerning the value and/or size of the relevant population and the sample selected for examination.

Comments of Local Officials and Corrective Action

The results of our audit and recommendations have been discussed with County officials, and their comments, which appear in Appendix B, have been considered in preparing this report. The Chairman disagreed with certain findings in our report. Our comments on the Chairman's response are included in Appendix C of this report.

The Board has the responsibility to initiate corrective action. A written corrective action plan (CAP) that addresses the findings and recommendations in this report should be prepared and forwarded to our office within 90 days, pursuant to Section 35 of General Municipal Law. For more information on preparing and filing your CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. We encourage the Board to make this plan available for public review in the County Clerk's office.

Financial Condition

The County's financial condition determines its ability to finance services on a continuing basis, maintain adequate service levels and survive economic disruptions. A municipality's fund balance (which represents assets remaining from prior years) is a key measure of its financial condition. County officials should ensure that the level of fund balance maintained is sufficient to provide adequate cash flow to hedge against unanticipated and anticipated expenditures and/or revenue shortfalls. A county in sound financial health can consistently generate sufficient, recurring revenues to finance anticipated expenditures and maintain sufficient cash flow to pay bills and other obligations when due without relying on short-term borrowings. A continuous reliance on, and subsequent decline in, available fund balance indicates a deteriorating financial condition.

The County's financial condition has been deteriorating for the last several years. This occurred because of planned operating deficits and expenditures outpacing revenues, which ultimately consumed fund balance. As of December 31, 2016, fund balance in the general fund was 2.7 percent of 2016 gross expenditures, which was among the lowest for counties in the State. At this rate, the County's current and future results of operations must be precisely as budgeted (or better) and spending monitored to stay within budget, or fund balance may be depleted at the end of 2017.

Budget Estimates

The County's operating budget is a primary tool in managing its financial condition. Developing realistic revenue and expenditure estimates based on known needs, resources and historical results should assist in monitoring current trends and financial issues so that necessary steps can be taken to maintain a stable financial condition.

From fiscal years 2014 through 2016, general fund expenditures exceeded budgeted amounts by an average of $29.9 million, or 12.1 percent, and revenues exceeded budgeted amounts by an average of $30.3 million, or 12.4 percent, resulting in a net variance of $326,000, or 0.1 percent (Figures 1 and 2). A large portion of these variances were for unforeseen, reimbursed expenditures or similar "spend to get" programs (i.e., health and economic assistance). As such, these were subsequently reimbursed by additional revenues (i.e., federal aid).

Figure 1: Revenues

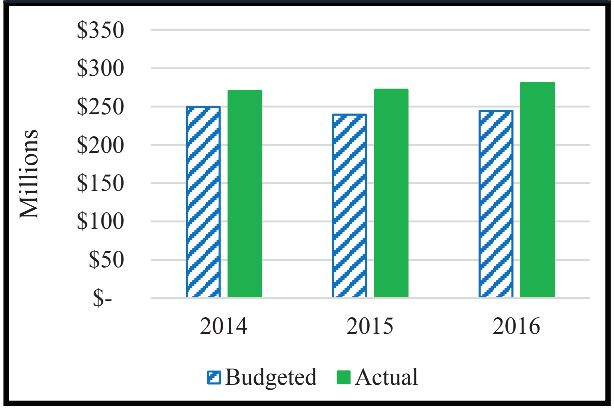
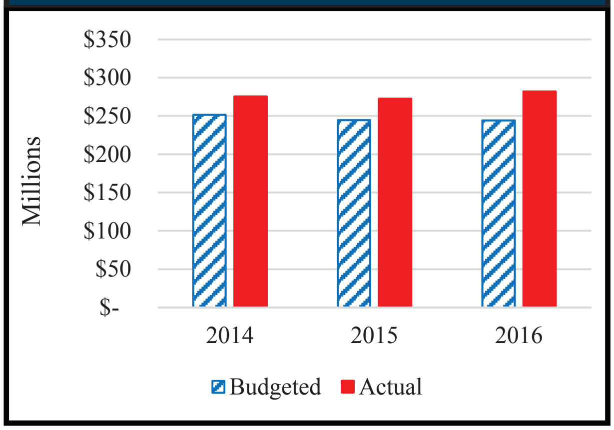


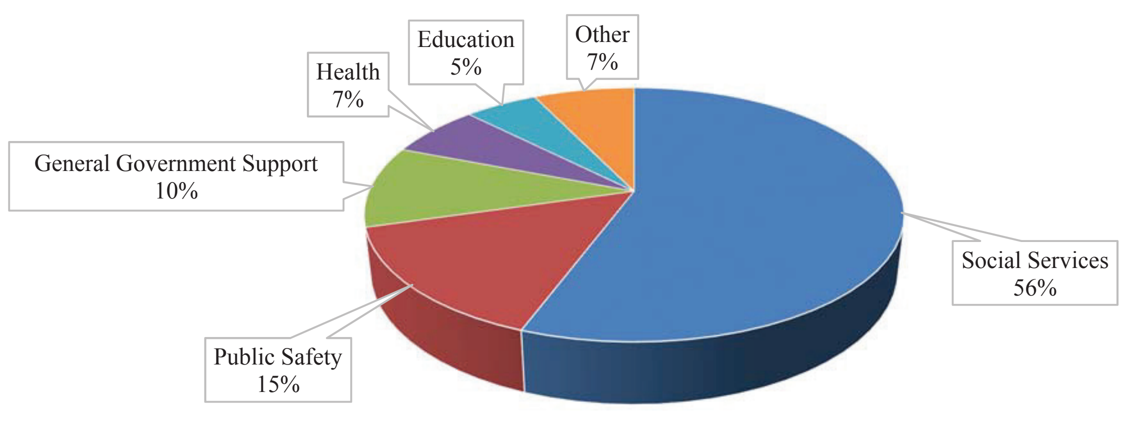
Figure 2: Expenditures



Considering the relative accuracy of County officials' budget practices, their plans to use fund balance came to fruition. On average, County officials annually used $2 million of available fund balance to fund operations in fiscal years 2014 through 2016. As of December 31, 2016, the County's available fund balance was $3 million, of which $2.7 million was appropriated to fund the 2017 budget. Therefore, County officials would have to be 99.9 percent accurate with their 2017 budget estimates to avoid depleting remaining fund balance.

Expenditures – The County's largest departmental expenditure is the Department of Social Services (DSS), at 56 percent of the total (Figure 3).

Figure 3: 2016 General Fund Spending Categories



DSS programs and operations are funded, at varying levels, by State and federal aid, and a local share through the real property tax levy. However, total expenditures for DSS, and County residents' net obligation, have dropped each of the last three years (Figure 4).

Figure 4: DSS Net Expenditures Trend (in millions)

	2014	2015	2016
Expenditures	$193.7	$191.0	$189.9
Program Revenues and Aid	$123.1	$122.1	$126.6
Net County Share	$70.6	$68.9	$63.3

While DSS net costs are still a primary driver of County spending, the General Government Support[1] and Public Safety expenditure categories are also significant cost centers when compared to DSS net costs. Moreover, the County's Public Safety and DSS net expenditures per capita exceeded other counties'[2] average net expenditures per capita in each of the past three years. The County's General Government Support costs (net of sales tax distributions) are lower than other counties' average net expenditures per capita (Figures 5, 6 and 7).[3]

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1 General Government Support includes expenditures for County facilities, general infrastructure and administrative operations. Also included are the Offices of the District Attorney and Public Defender.

2 Unless otherwise specified, we included all counties outside of New York City and Long Island in our comparisons.

3 Figures 5, 6 and 7 exclude Madison County and Tioga County from 2016 data as the data was unavailable.

Figure 5: General Government Support Net Expenditures Per Capita Comparison

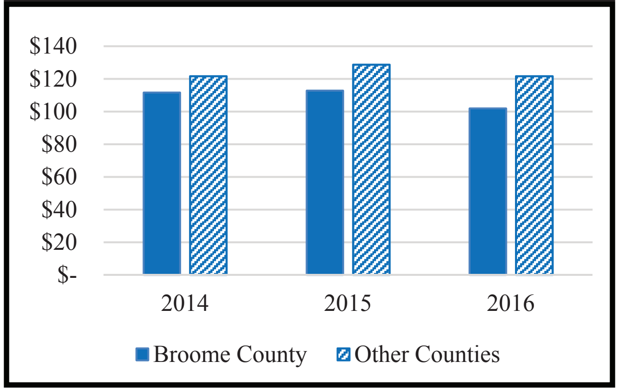


Figure 6: Public Safety Net Expenditurs Per Capita Comparison

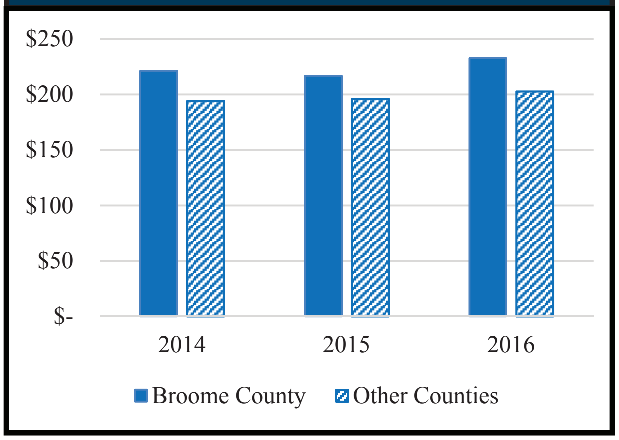
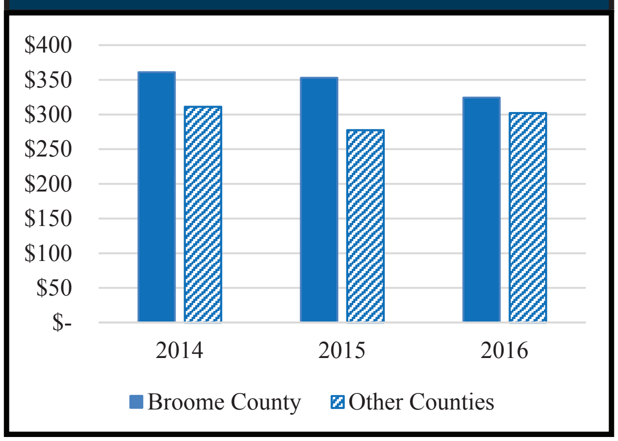


Figure 7: DSS Net Expenditures Per Capita Comparison



Employees' salaries and benefits, including retiree benefits, comprised the majority of the General Government Support costs (between 66 and 70 percent from 2014 through 2016) and have increased by approximately 2 percent each year since 2013. The County jail operations comprise nearly half of the Public Safety expenditures, with personal services and employee benefits making up approximately 78 percent of those expenditures. The County's 2016 DSS total gross expenditures were twice as high as the average of other counties.[4] However, the County also had twice the amount of average monthly temporary assistance recipients in 2016 than other counties. This caseload is likely driven by the higher than average percentage of the County population living in poverty (11.4 percent compared to 9.5 percent for other counties). The County has been slightly above other upstate counties' average unemployment rates over the last eight years and below the average weekly wages[5] over the last four years, at least (Figures 8 and 9).

Figure 8: Average Unemployment Rates

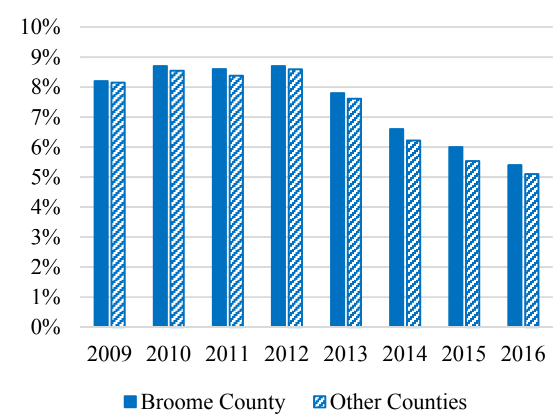
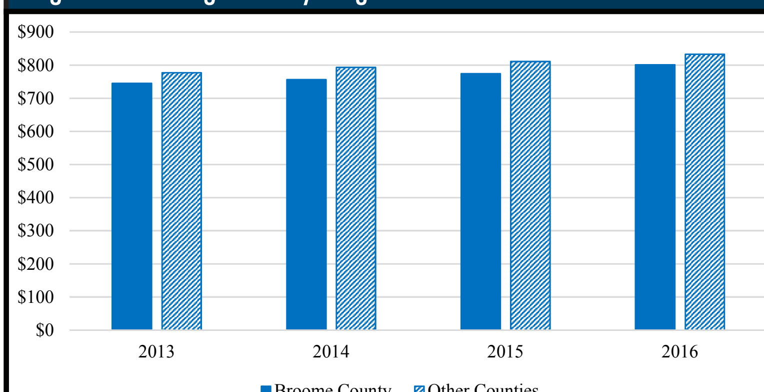


Figure 9: Average Weekly Wages



4 Excluding Madison County and Tioga County as 2016 data was unavailable.

5 This includes people who are employed or are covered by unemployment insurance or unemployment compensation for federal employees programs.

While DSS has required cost-sharing with the County, State and federal sources, the County almost completely funds General Government Support and Public Safety. Other County operations that should be self-sustaining are not and require consistent subsidies (direct transfers and intergovernmental transfers) from the County's general fund, including: the airport, two entertainment venues, the nursing home and the public transportation system. These subsidies averaged $7 million per year during fiscal years 2014 through 2016 (Figure 10).

Figure 10: General Fund Subsidies

County Operation	2014	2015	2016	Average
Airport	$598,637	$549,773	$565,584	$571,331
Arena & Forum	$1,127,475	$1,004,348	$660,581	$930,801
Public Transportation	$1,935,235	$2,288,543	$1,847,558	$2,023,779
Nursing Home	$4,115,846	$3,215,000	$3,000,000	$3,443,615
Total	**$7,777,193**	**$7,057,664**	**$6,073,723**	**$6,969,527**

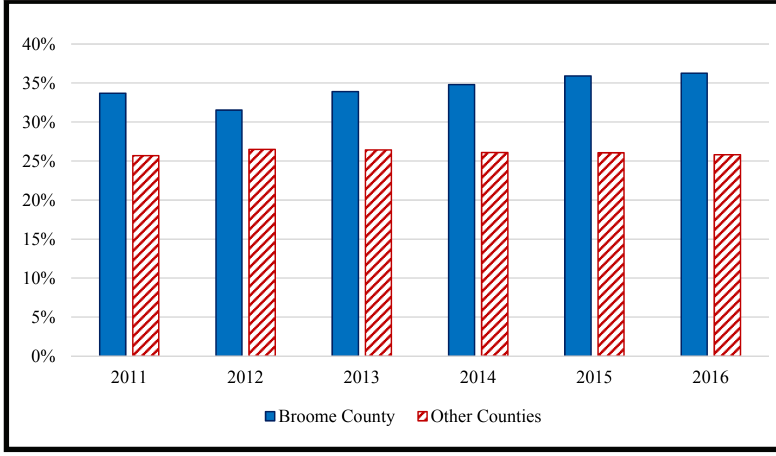
Revenues – The majority of County revenues are driven by expenditure-based reimbursements and State and federal aid. In 2016, State and federal aid accounted for 39 percent of the County's total general fund revenues. Moreover, in 2015, the County's reliance on federal aid as a percentage of total revenues (25.2 percent) was significantly higher than the average of other counties[6] in the State (10.8 percent). Of the County's total federal aid, 74.1 percent was related to social services programs – also higher than the average of other counties (63.7 percent). The County's heavy reliance on federal aid, coupled with potential cuts to federally funded social service and other County programs, makes it all the more important for County officials to properly manage the revenue sources within their control.

The real property tax levy and the allocation of sales tax are the material revenue sources within County officials' direct control. Sales tax is the second highest revenue in the County (32 percent of total revenues). The County shares sales tax revenues with local municipalities, based on a formula. Historically, the percentage of sales tax revenues shared with local municipalities within the County has been significantly higher than the average shared by other counties (Figure 11).[7]

[6] Excluding St. Lawrence County, as data was unavailable.

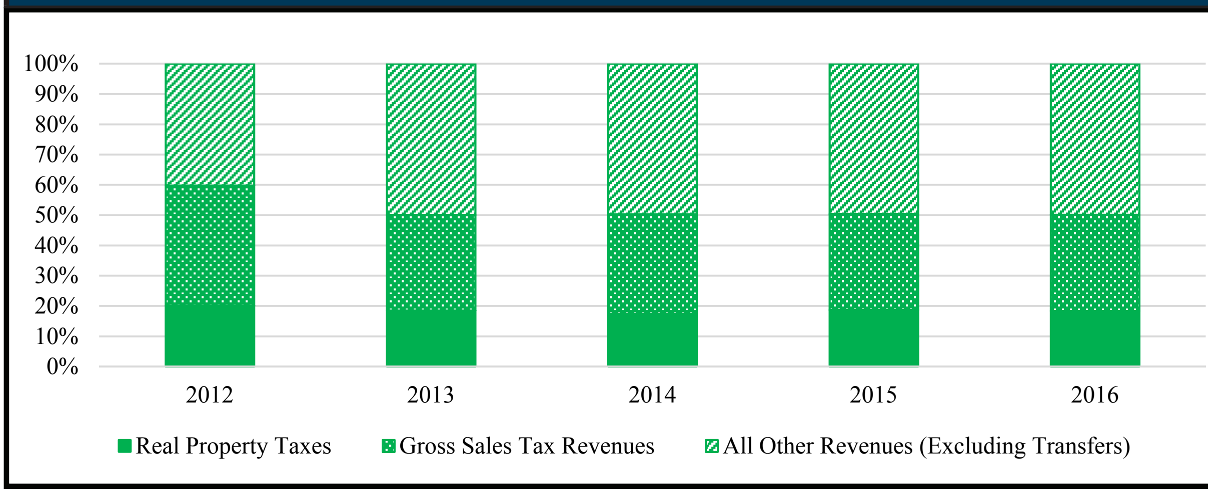
[7] Figure 11 excludes Madison County and Tioga County from 2016 data, as the data was unavailable.

Figure 11: Sales Tax Distribution - Broome County vs. Average of Other Counties



Net sales tax revenues and the County's general fund real property tax levy[8] comprise the two largest portions of the County's revenue, creating a significant operational reliance on these two revenues (Figure 12):

Figure 12: Real Property Taxes, Sales Tax Revenues and All Other Revenues (Excluding Transfers)



The Board adopted a 2017 general fund budget that accelerated the trend to increase the sales tax sharing rate, which has increased from 31.5 percent in 2012 to the budgeted 37.5 percent in 2017.[9]

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[8] The County budgets for real property taxes in the general fund, including the allocations of the taxes that are budgeted to be transferred to other funds.

[9] The County has a gross sales tax rate of 8 percent of applicable sales, of which 4 percent goes to the State and 4 percent belongs to the County. Of the County's 4 percentage points, the County's 2017 budget calls for retaining 1 percentage point and distributing half of the remaining 3 percentage points to the city, towns and villages within the County. For example, the 2017 budget indicates expected gross sales tax revenues of $124,317,736, with the County retaining $77,698,585 and distributing $46,619,151 to the local municipalities.

According to the Board resolution increasing the sharing rate for 2017, County officials anticipated the County would "continue to experience economic growth" and that the (prior) County Executive determined the County needed to return to "a true 50/50 split of the 3 percent collected over a period of time." The 2017 adopted budget also increased the real property tax levy slightly. Had the County not increased the sales tax sharing rate, it would have retained an additional $6.3 million in revenues from 2014 through 2016. These funding sources were replaced with the use of fund balance to finance operations, rather than offsetting the decreased net sales tax revenues with increases to the real property tax levy. Because fund balance has been depleted, this practice will not be sustainable for 2018.

Fund Balance

County officials may retain a "reasonable amount" of unassigned fund balance, consistent with prudent budgeting practices, necessary to ensure the County's orderly operation and continued provision of services.[10] Any surplus fund balance can be used to finance County expenditures. However, since fund balance is not a recurring source of funding, a structurally sound financial plan should only use fund balance to fund one-time, or non-recurring, expenditures. Fund balance should not be used as a routine financing source for operations. A policy that establishes an intended level of fund balance to maintain for cash flow and unanticipated events is a prudent tool for ensuring long-term fiscal health. While fund balance can be appropriated in the budget to help finance operations, consistently doing so – instead of planning to use recurring revenue sources – can deplete the fund balance to levels that are not sufficient for contingencies and cash flow needs.

County officials have continued to use fund balance to finance operations, resulting in the depletion of the amount of available fund balance[11] to levels that put continued service levels at risk if no substitute financing source is employed (Figure 13). As of December 31, 2013, the general fund had $12.2 million in total fund balance that could be used to fund ensuing years' operations, reserve for future expenditures or maintain for unexpected occurrences. Approximately 17 percent of this balance was appropriated in the 2014 budget to cover a planned deficit of $2.1 million. The 2014 actual results ended with a $4.6 million operating deficit (more than twice the planned amount). The Board then planned to use 94 percent of the remaining $5.2 million in available fund balance to finance operations for the 2015 budget.[12]

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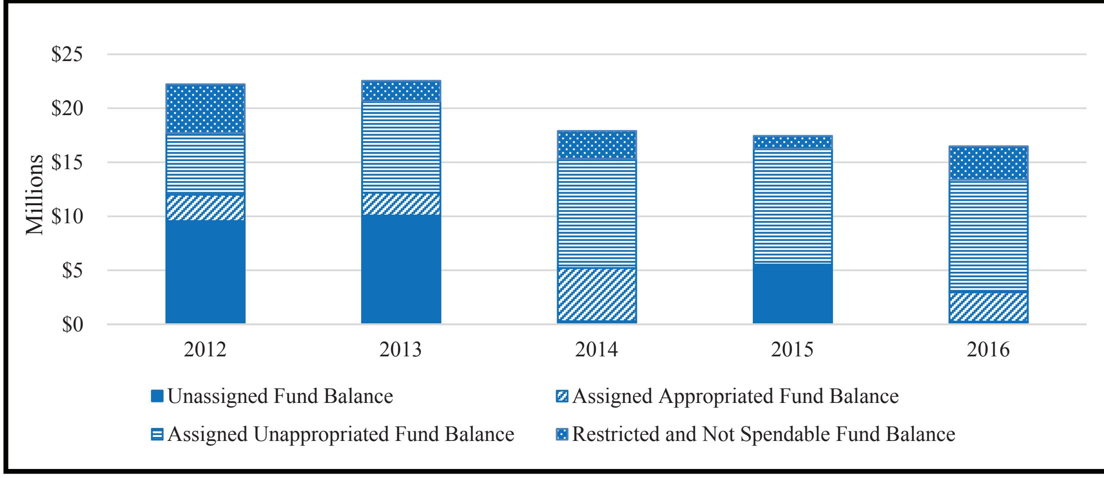
[10] County Law Section 355-1(g)

[11] For the purposes of this audit report, we defined "available fund balance" as the County's appropriated fund balance and unassigned fund balance combined.

[12] No fund balance was appropriated for the 2016 budget and $2.7 million was appropriated for the 2017 budget.

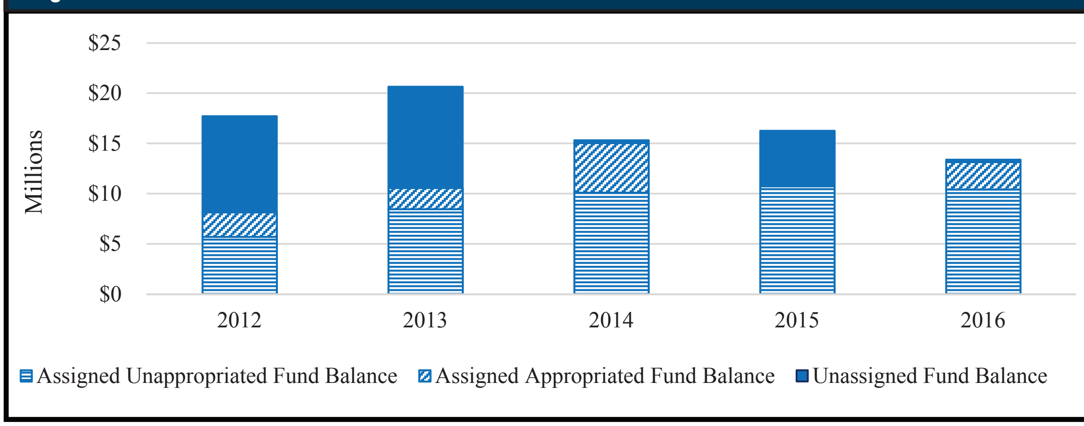
Figure 13: Year-End Fund Balance Levels



In summary, the Board adopted budgets in 2014 through 2016 that planned to use a total of $7.0 million in appropriated fund balance as a funding source. During this time, the County experienced operating deficits totaling $6.0 million. Available fund balance as of December 31, 2016 was down to approximately $3.0 million, of which all but $255,096 was appropriated to finance the 2017 budget. This shows a consistent pattern of appropriating significant amounts of available fund balance to finance operations, deteriorating fund balance levels.

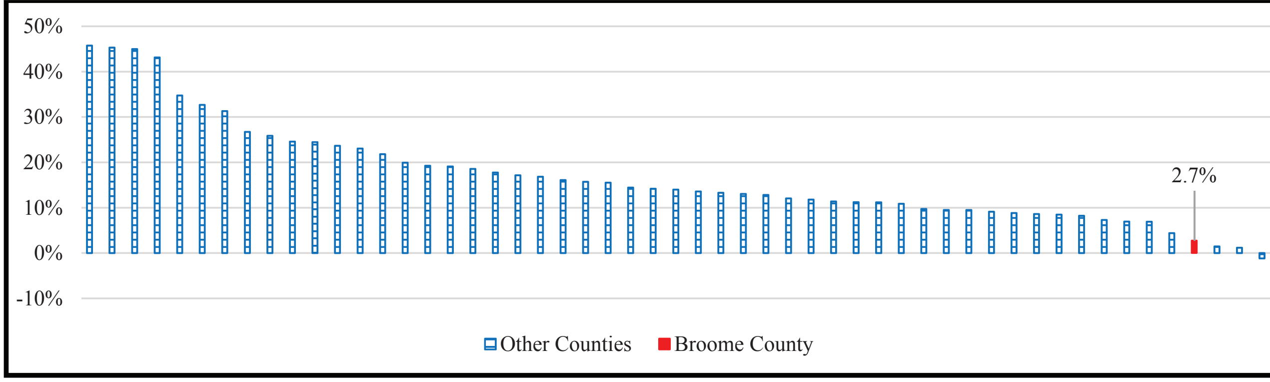
As of December 31, 2016, the general fund had $255,000 remaining in available fund balance after the adopted 2017 budget planned to use $2.7 million as a financing source (Figure 14).

Figure 14: General Fund Year-End Unreserved Fund Balance



While the County Executive and Board are responsible for determining the amount of fund balance deemed reasonable to retain, adopting budgets that leave $255,000 as a cushion for a general fund operation in excess of $247 million (as was adopted for 2017) provides no margin of error. As of December 31, 2016, the County's reported assigned and unassigned fund balance (excluding appropriated fund balance) in the general fund was 2.7 percent of gross expenditures, one of the lowest of all counties in the State (Figure 15).[13]

Figure 15: All Counties' December 31, 2016 Fund Balance (Excluding Appropriated Fund Balance) in the General Fund as a Percentage of 2016 Gross Expenditures



If the County was in line with the average amount of fund balance retained by other counties (17.1 percent of gross expenditures), it would require an increase of approximately $56 million in assigned and/or unassigned fund balance. Such an increase is equivalent to 95.2 percent of the general fund's 2017 real property tax levy.

County officials have not adopted any specific fund balance policy that states minimum levels of fund balances that should be maintained, despite us making that recommendation in our last audit.[14] Legislators told us that they purposefully try to keep fund balance low so as not to raise taxes higher than necessary. While this approach has merit, once a reasonable cushion is accumulated, it would take the same tax levy to maintain that level as it would to maintain zero fund balance.

As the County's financial condition worsens, cash flow becomes limited and officials use short-term debt to fund cash deficits. This is, in part, caused by the County's high amount of real property taxes receivable, which, in 2015, was 53 percent of the County's ensuing year's real property tax levy as compared to 25 percent for the average of other counties. Although the County's long-term collection rate is almost 100 percent, the County typically only collects 95 percent of its real property tax levy in the year it is due. In 2016, the amount not collected from the 2015 and 2016 levies of approximately $8.7 million represents 12 percent of the 2016 levy.

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[13] All counties excluding New York City, Long Island, Madison County and Tioga County. We obtained this information from counties' financial reports submitted to the State Comptroller's Office.

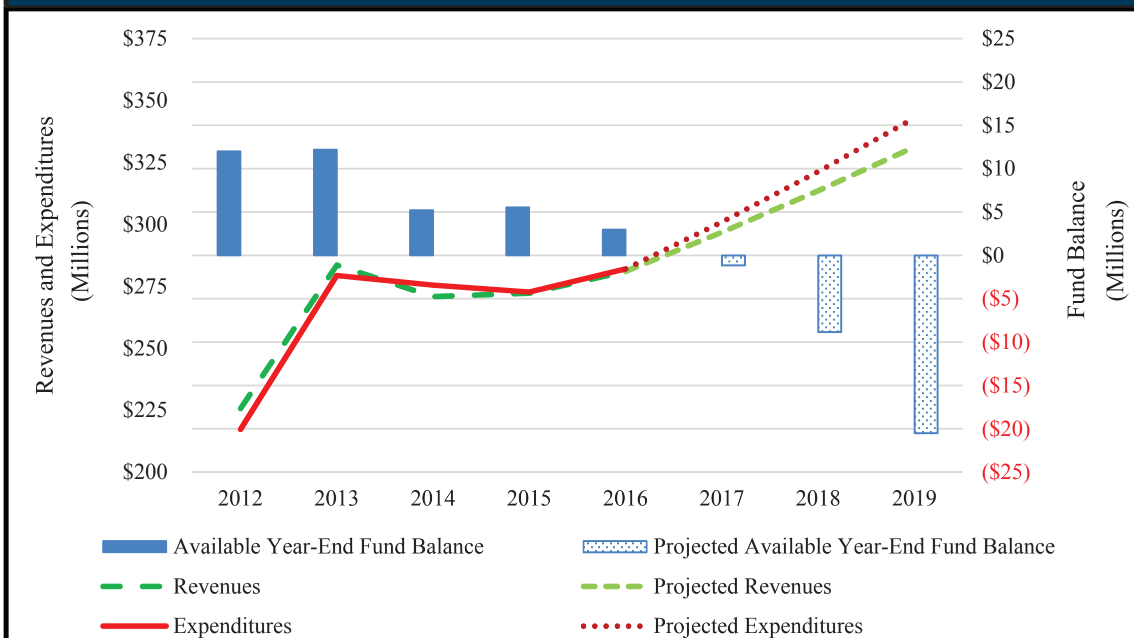
[14] *2013 M-224, Broome County: Financial Condition*, October 2013

The County is one of only seven counties in the State that have issued short-term debt to address cash flow needs over the last five years, and it has issued short-term debt averaging $12.5 million in each of the last five years. While we recognize that the County has decreased the amount of short-term debt outstanding from $20 million in 2011 to $10 million in 2016 (50 percent), it should be able to finance operations and address any cash flow issues with available fund balance.

In addition, to contain expenditure growth, County officials have deferred needed investments into County infrastructure. While the County has replacement schedules for its equipment and fleet, we found 132 out of 289 pieces of equipment reviewed, which are still in use, have exceeded their useful life according to the County's own estimates (Appendix A). The County has not replaced equipment due to the lack of available funds. If fund balance is depleted, County officials would most likely have to decide whether to continue the services with increasing future costs or eliminate the service.

The rate of growth in expenditures is outpacing the growth in revenues, which continues to deplete the amount of fund balance in the general fund. At the current rate of growth in revenues and expenditures, we project the County will deplete its fund balance by the end of 2017 if trends continue (Figure 16).

Figure 16: Projected Results of Operations and Impact on Year-End Fund Balance



From 2012 through 2016, the total expenditure growth has averaged 6.7 percent and revenues are not keeping pace at 5.6 percent. While these percentages seem small, the total amount of money represents millions of dollars in losses each year. The repeated losses have eroded fund balance.

The County cannot continue to spend more than it takes in because fund balance is no longer available to fund any shortfalls. To avoid a deficit fund balance and an inability to pay bills and payrolls, County officials must develop a balanced 2018 budget and should also adopt a long-term financial plan to project finances going forward. In addition, County officials should develop a capital plan to replace equipment as needed, maintain roads, bridges and other infrastructure and to resolve the deferred capital spending that has already occurred.

Ultimately, if the County's financial condition continues to worsen to the point of significant deficit fund balances, one option the Board may be constrained to consider is a request for the State Legislature to enact special legislation authorizing the County to issue bonds to finance the accumulated deficits. Such special legislation would trigger the oversight requirements of Local Finance Law Section 10.10. These include the State Comptroller's certification of the amount of the deficits before the County may issue bonds for its liquidation, annual review of the County's proposed budget by the State Comptroller, quarterly budget reporting, an annual three-year financial plan and an opportunity for the State Comptroller to review and comment on the affordability of subsequent County borrowings. The County would be required to make adjustments to its proposed budget consistent with any recommendations made by the State Comptroller or explain, in writing, any recommendations that are rejected.

Recommendations

County officials should:

1. Cease using fund balance to finance recurring expenditures.

2. Develop a fund balance policy that establishes a reasonable amount of fund balance to be maintained to meet the County's needs, provide sufficient cash flow, and reduce or eliminate reliance on short-term borrowing.

3. Adopt a long-term financial plan.

4. Adopt budgets that include financing recurring expenditures with recurring revenues.

5. Update the capital plan and take steps to bring their long-term assets and infrastructure in line with the capital plan.

APPENDIX A

VEHICLES AND EQUIPMENT BEYOND THEIR USEFUL LIFE

The following vehicles and equipment were beyond their useful life, according to the County's own estimates:

- 57 of 126 fleet vehicles reviewed
- Six of 26 10-wheel dump trucks reviewed
- Three of six loaders reviewed
- Two of two pavers reviewed
- 12 of 20 airport vehicles and equipment
- 27 of 55 pieces of landfill equipment
- 25 of 54 buses.

APPENDIX B

RESPONSES FROM LOCAL OFFICIALS

The local officials' responses to this audit can be found on the following pages.

State of New York
County of Broome Government Offices

Office of the Broome County Executive
Jason T. Garnar, County Executive

October 13, 2017

H. Todd Eames
Division of LGSA- Binghamton Regional Office
Office of the State Comptroller, State of New York
44 Hawley St
Binghamton, NY 13901

Dear Mr. Eames:

My office received your Financial Condition Report of Examination for Broome County Government for the period of January 1, 2016- February 23, 2017. This letter also serves to confirm the information received during the audit.

We are facing a challenging financial situation and accept the five recommendations included in your report to improve our fund balance, and ultimately to improve our financial stress.

Additionally, Broome County will be taking corrective action to address the five recommendations presented to us in the report.

The Broome County Executive Office appreciates your time and cooperation as we work to meet our fiscal needs.

Sincerely,

Jason T. Garnar
Broome County Executive

Cc: Daniel J. Reynolds
Kevin McManus
Jerome Knebel
Alex McLaughlin
Sarah Kane

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Office of the Broome County Legislature
Daniel J. Reynolds, MPA®, RHU®
Chairman, & 5th District Legislator
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October 13, 2017

Office of the New York State Comptroller
Division of Local Government and School Accountability
110 State Street, 12th floor
Albany, NY 12236

On behalf of the Legislature, I would like to thank New York State Comptroller Thomas DiNapoli and his staff for their time, effort and energy reviewing Broome County's financials and completing the audit for the period from January 2016 to February 2017. The staff was extremely professional and were routinely accessible during the audit process.

See Note 1 Page 24

When the Legislature agreed to jointly request the audit with the Administration, we did so with the understanding that the audit was supposed to be an independent review of our financial operations. However, as is evident in the Comptroller's narrative, the report appears to be less about the fiscal operations in Broome County and more a political statement on fund balance.

Additionally, we find the Comptroller's narrative regarding Broome County's fiscal condition significantly lacking in context, as it fails to account for the fiscal realities and historic facts that have taken place over the last several years. As a result, some of the observations and recommendations are diminished by a failure to account for and reconcile this information in their analysis.

See Note 2 Page 24

In the 2012 budget, Broome County began repairing the fiscal damage that was done by previous administrations, including $10 million dollars from unrealistic and speculative gas-lease receipts. The County was saddled with nearly $20 million dollars in short term debt, a situation that was tantamount to buying groceries with a credit card. Additionally, the County's credit rating had been lowered, and property taxes increased. The County had several million dollars in bad debt at Willow Point Nursing Home that went uncollected. County roads and facilities were left in disrepair with no plan or resources set aside to remedy the emerging problems. The County had also previously concocted and implemented a plan in 2009 to take significant sales tax revenue away from the City, towns and villages rather than make difficult budgetary decisions, which in turn caused significant financial problems for those municipalities.

Over the last five years, Broome County has made significant strides both financially and structurally that were not factored into the Comptroller's narrative. Since 2012, Broome County has spent millions of dollars repairing and upgrading County roads, increasing road patrols by the Sheriff's Department, creating a modern short-term rehab unit at Willow Point Nursing home, fixing the bad debt collection problem at the

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nursing home, eliminating $10 million dollars in short-term debt, reducing the County's long term indebtedness, establishing new fiscal controls; investing in economic development projects at our corporate parks and airport corridor, and working on several other projects and initiatives.

During this time, the Broome County Legislature also restored the original sales tax agreement with local municipalities, which has allowed them to cut taxes, invest in their infrastructure and provide essential services to their residents. Additionally, Standard & Poor's and Moody's have both significantly improved their credit ratings of Broome County, which saves significant dollars by lowering the cost to borrow money. We also rebounded from one of the most devastating floods this community has ever seen, and we did all of the abovementioned while keeping tax increases to an average of less than **1.13%** annually, well under the tax cap.

See Note 3 Page 24

The Legislature has not historically supported tax increases with the purpose of taking money away from taxpayers to simply place it in the County's bank account. Although the Comptroller highlights a need for increasing the fund balance, the report offers neither a suggestion on the appropriate level of fund balance nor the method for achieving an increased level.

See Note 4 Page 24

In fact, the report seems to contradict the notion of building the fund balance, by giving the impression that Broome County needs to spend significant funds to replace an aging fleet. An interesting side note to this topic that was excluded from the report, was the Legislature’s request from the current and previous administrations for a more rigorous standard of evaluating fleet replacement including: mileage, annual maintenance costs, time out of service, estimated re-sale value, performance, condition, actual use, and age. The Comptroller instead opted for a more simplistic standard of evaluating the County’s fleet by utilizing the expected use of service schedule that factors in age, but does not account for the other important variables to determine fleet replacement. That replacement strategy is a flawed method that fails taxpayers and does not extract the maximum value from the County's fleet, in an era where replacement costs of vehicles has skyrocketed for taxpayers.

See Note 5 Page 24

See Note 6 Page 25

We appreciate the Comptroller’s notion that elected officials are expected to make informed and conscientious financial decisions regarding municipal operations.   However, one of the most curious parts of the document stems from the lack of inclusion of even the simplest of requests to aid the Legislature in its responsibility of fiscal oversight. The Comptroller states that their goals of an audit are:

- ***Enable and encourage local government and school officials to maintain or improve fiscal health by increasing efficiency and effectiveness, managing costs, improving service delivery, and accounting for and protecting assets.***

- ***Promote government reform and foster good governance in communities statewide by providing local government and school officials with up-to-date information and expert technical assistance.***

During the audit, a member of the Comptroller’s team requested monthly financial reports that the Administration was supposed to provide to the Legislature. They discovered, in their review, that the financial reports were not being produced or provided by the Administration. Seeing that the Legislature is tasked with oversight of County finances, we had requested the Comptroller include in the report a recommendation to

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the Administration to provide additional financial reports to the Legislature on either a monthly or quarterly basis so that proper oversight and decisions on finances can be made in a timely manner. Unfortunately, that suggestion was rejected as not being germane to the audit. The rationale does not appear to be consistent with either the goals of the audit listed above or any documentation on the Comptroller's website that addresses fiscal accountability.

See Note 7 Page 25

I truly believe the audit represents a missed opportunity by the Comptroller's Office to help Broome County establish additional fiscal controls and financial reporting that would have benefited the Executive's Office, the Legislature and the people of Broome County. Although the Comptroller's report is non-binding in nature, the inclusion of additional financial reporting and the standardization of information would have helped ensure Legislators have the best available information when carrying out their governmental and fiduciary responsibilities, which is a goal that everyone regardless of party affiliation should be able to agree upon.

Sincerely,

DANIEL J. REYNOLDS, MPA, RHU
Chairman and 5th District Legislator
Broome County, New York

APPENDIX C

OSC COMMENTS ON THE CHAIRMAN'S RESPONSE

Note 1

The primary finding of our audit report is the County's trend of unstructured budget financing that relies heavily on fund balance that has diminished significantly. The objective of our audit was to determine whether County officials maintained sufficient levels of fund balance in the general fund to ensure the sustainability of current and future operations. We offer recommendations based on sound business practices. As our audit report indicates, the County's fund balance is decreasing and is one of the lowest in the State (when compared to other upstate counties). These are statements of fact.

Note 2

While the causes of the County's fiscal decline are many and historic, because of its recent use of fund balance, a high risk remains of insolvency in the near future. Creating a positive financial trend for the current and ensuing fiscal years should become an urgent priority for the County administration.

Note 3

The County's tax levy was kept artificially low with the repeated use of fund balance, a non-recurring financing source, to finance recurring operations. With the depletion of fund balance and the reduction of net sales tax due to the increased sharing with local municipalities, the County will be forced to significantly increase real property taxes or reduce service levels.

Note 4

As noted in this response, the Legislature seems to recognize that unexpected and unplanned situations arise. A reasonable level of fund balance should serve to shield the County, and its taxpayers, from bearing dramatic increases in real property taxes or reductions in current service levels. The Legislature should determine the amount of fund balance that is reasonable to serve as such a safeguard. Our report provides recommendations to achieve appropriate levels of fund balance, such as ceasing the use of fund balance to finance recurring expenditures, establishing a reasonable amount of fund balance to be maintained, reducing reliance on short-term borrowing and adopting budgets that include financing recurring expenditures with recurring revenues.

Note 5

The County's aging equipment is an unavoidable liability caused by the decision to defer maintenance and/or replacement that only worsens with time. We reviewed the condition of the County's fleet and status of its replacement schedules to determine whether there were significant infrastructure needs. We found that nearly half of the pieces of equipment reviewed were beyond their useful life according to the County's own estimates. While a more rigorous system to determine replacement points could be utilized, it would only provide a benefit if equipment were actually replaced in accordance with the plan, which is not currently the case.

Note 6

We recommend County officials update the capital plan and take steps to bring their long-term assets and infrastructure in line with the capital plan. For the purposes of evaluating the County's equipment and fleet, we utilized the useful life outlined on the County's replacement schedules, which we deemed were reasonable as compared to the New York State Office of General Services useful life table. Again, while a more rigorous system to determine replacement points could be utilized, it would only provide a benefit if equipment were actually replaced in accordance with the plan, which is not currently the case.

Note 7

We agree that more financial information would provide more opportunity for oversight. However, our comparison of actual results of operations to budgeted amounts indicated the budgets were relatively accurate. The problem was not that budgets were not followed, but rather that the budgets provided too much reliance on fund balance, which has depleted most of the financial cushion. As a result of the relative compliance with the budgets, we did not include a recommendation for additional financial reports, and instead focused on the content of the budgets.

APPENDIX D

AUDIT METHODOLOGY AND STANDARDS

The objective of our audit was to review the County's financial condition. To achieve our audit objective and obtain valid audit evidence, we performed the following audit procedures:

- We interviewed County officials and reviewed the County's charter and code, resolutions, financial documents and census data to gain understanding of County operations, officials' responsibilities and oversight, and policies and procedures for budgetary and fiscal control.
- We conducted various analyses of the County's financial records and audited financial statements to gain a full understanding of its financial condition, revenues and expenditures, and to verify fund balances and identify trends.
- We analyzed trends in total revenues and expenditures, net of sales tax distributions and non-cash assistance adjustments, from 2012 through 2016 to project future operating results and potential effects on future fund balances.
- We gathered financial records from other counties in the State and conducted various analyses to compare the County's financial condition, fund balances, revenues, expenditures, short-term debt, sales tax distributions and trends to other counties in the State.
- We compared budgeted revenues and expenditures to actual revenues and expenditures to determine the accuracy of County budgeting practices.
- We compiled federal census and State labor statistics data for the County and other counties in the State to compare and analyze their economic conditions.
- We interviewed officials and reviewed resolutions and financial records to analyze the County's sales tax collections, real property tax levies and collections and sales tax distributions to local municipalities.
- We reviewed our previous audits' findings and compared them to the County's current financial condition and operations to determine whether officials addressed the findings.
- We interviewed officials and reviewed County-adopted capital replacement plans and equipment listings to determine whether equipment exceeded its useful life.
- We documented conditions faced by another county with deficit financing to illustrate potential implications of filing for deficit financing.

We conducted this performance audit in accordance with GAGAS. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

APPENDIX E

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